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## MANFOR LTD.
## BOARD OF DIRECTORS

A.D. Bourgeois – Chairman

Trevor Anderson – Wabowden

Ken Cassan – The Pas

Ron Gareau – The Pas

Wayne Halverson – The Pas

John Milner – Cranberry Portage

Lloyd Schreyer – Winnipeg

Grant Wilson – Winnipeg

Robert Wilson – Winnipeg

## MANAGEMENT

A.D. Bourgeois – Chief Executive Officer

D.W. Betts – Comptroller

F. Ellis – Manager, Human Resources

W.W. Gillespie – Manager, Lumber

W.J. Henderson – Manager,
Planning and Development

W.E. Jonas – Manager, Woodlands

R. Ostman – Manager, Marketing

W.J. Veitch – Manager,
Engineering and Maintenance

G.M. Wazny – Manager, Pulp and Paper

# Manitoba

**Minister Responsible for**
**Manfor Ltd.**

Winnipeg, Manitoba, CANADA
R3C 0V8

June 3, 1988

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MANITOBA

The Honourable George Johnson
Lieutenant-Governor
Province of Manitoba
Winnipeg, Manitoba
R3C 0V8

May It Please Your Honour:

I have the honour to submit the Annual Report of Manfor Ltd. for the period ended December 31, 1987.

Respectfully submitted,

J.A. Ernst,
Minister

MANFOR LTD.

WINNIPEG OFFICE
806-363 Broadway, Winnipeg, Manitoba R3C 3N9
Tel. (204) 942-3544 Telex 07-55149

June 2, 1988

The Honourable James A. Ernst,
Minister Responsible for Manfor Ltd.

Sir:

In accordance with Section 8 (1) of The Manitoba Natural Resources Development Act, I have the honour to present the Annual Report for Manfor Ltd., for the year ended December 31, 1987.

Your truly,

Alan D. Bourgeois,
Chairman and Chief
Executive Officer.

# MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

In 1987, Manfor participated in the prosperity enjoyed by the Canadian forest products industry. Revenues increased by 17 per cent over 1986. Record paper prices and record revenues contributed to one of the largest profits in company history, $3.3 million.

This substantial achievement was a direct result of the corporate strategy adopted in 1982/83 which included modernizing the paper mill to change the product line and to improve productivity, re-structuring company operations, and refinancing.

Manfor has successfully developed a niche in the North American market for its high-quality kraft paper sold under the trade name, "Super Performance Kraft" or SPK, transforming the company from a commodity paper mill to a specialty product producer.

Much of the credit for the success of the strategy is due to my predecessors; Murray O. Harvey, chairman of the board; and Jack Sweeney and Spencer Balmer, chief executive officers, and to the work and dedication of employees whose efforts have brought about these favourable results.

Company operations have been focussed on the production of higher value products to meet demanding customer specifications. Corporate management has been integrated and centred at The Pas, and overall management structures have been streamlined. At the same time, a high priority has been placed on continuing cost reductions.

Now Manfor can consolidate its position as the premier North American producer of unbleached kraft paper and can move toward the future.

While pride can be taken in Manfor's accomplishments, it must be remembered the forest industry is highly cyclical and, right now, it's enjoying an unprecedented peak.

Profits in the good years are needed to moderate down cycles and to fund the future investments required to maintain competitiveness at an international level.

The challenge at Manfor is to increase productivity, reduce costs and plan for the next phase of investment in order to ensure the long-term profitabiiity of our operations.

The performance of the sawmill has been disappointing. In 1987, production targets were not met. However, management changes and equipment modifications were made to increase production.

It appears 1988 will be another difficult year for sawmills due to weakening housing markets in the United States, appreciation of the Canadian dollar in relation to the American dollar, and the impact of the softwood export tax on net Canadian mill prices. Manfor plans to improve the financial performance of the sawmill by improving production and by developing more lucrative markets in Great Britain.

The overall outlook for the company in 1988 is positive. This outlook is based upon assumptions that a recession will be avoided this year, stability or a modest appreciation will occur in the Canada/U.S. exchange rate, sawmill performance will be improved, and record paper prices will continue.

With a strong effort by all at Manfor, we can achieve our production, quality control and profitability goals in 1988.

A.D. Bourgeois
Chairman of the Board and C.E.O.
Manfor Ltd.

# MANFOR OPERATIONS

## ■ Pulp and Paper

In 1937, Manfor's pulp and paper operation produced more than 124,000 tonnes of quality paper. This production level was just below the production record set in 1986. Significant production was lost because of an illegal work stoppage in April and a fire in December.

However, in March, a monthly production record of 12,038 tonnes or 396 tonnes per day was achieved. Contributing factors were careful attention to quality control and an increased emphasis on preventative maintenance.

The success of SPK in the market-place was clearly demonstrated in 1987. SPK shipments increased by 45 per cent over 1986 levels to account for almost 75 per cent of total product sales.

Further evidence of the success of the company's strategy to emphasize the North American market occurred in 1987 with a 25 per cent increase in the sales of quality paper to the United States. This market accounts for, by far, the largest share of total Manfor paper sales. Manfor is now the largest exporter of unbleached kraft paper to the U.S.

Aggressive production, quality control and productivity objectives have been set for 1988. In view of the positive market outlook for Manfor's unbleached kraft paper products, achievement of these objectives will result in continued improvements in the paper mill's financial performance.

## ■ Woodlands

In 1987, Manfor's Woodlands operations produced more than 780,000 cubic meters of wood. To improve the saw log supply, approximately 75,000 cubic meters of this total were delivered under a negotiated arrangement with the International Woodworkers of America, Local 1-324.

Twenty-eight kilometers of logging roads were constructed.

Phased implementation of mechanical harvesting and other cost reduction measures were investigated for potential introduction in 1988 as part of an ongoing strategy to reduce fibre costs.

A $1,600,000 reforestation program was implemented. The Canada/Manitoba Forestry Agreement provided $650,000 of the total expenditure. More than 3 million trees were planted and 2,500 hectares prepared for renewal. This activity represents an integral part of Manfor's planned reforestation program. By 1990, 100 per cent of the area harvested each year will be reforested.

## ■ Lumber

Sawmill production totalled 66.3 million board feet, up 53 per cent over 1986 levels, but still significantly below mill capacity. Accordingly, attention was focussed on the elimination of the major causes of down time and on ensuring an uninterrupted supply of debarked logs to the mill. Steps taken in late 1987 to address production difficulties had a marked impact on production levels.

Returns from sales to the United States have become less attractive because of the strengthening Canadian dollar and the imposition of the tax on softwood lumber exports.

By late 1987, sales to the American market declined from over 40 per cent in 1986 to less than 20 per cent of the total lumber shipments. In anticipation of the deteriorating returns from the North American market, development of markets in Great Britain has been pursued to broaden the market base for the sawmill.

The next year, 1988, will be pivotal for Manfor's sawmill. In the face of uncertain markets, improving production, reducing costs and increasing mill net returns are critical.

## ■ Corporate Operations

In 1987, the Human Resources Department completed a staff succession plan, carried out supervisory training, developed a salary administration program and re-established trades apprenticeship programs in the paper mill and sawmill.

Implementation of pay equity progressed in accordance with the legislated requirements of the Province of Manitoba.

The computerization of accounting operations and the improvement of financial resource management were ongoing corporate priorities.

During the year, the program to sell the company's residential rental properties was completed.

Manitoba

MANFOR LTD.
REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manfor Ltd. as at December 31, 1987 and the statements of operating deficit, operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in accounting policies as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

F.H. Jackson, CA,
Provincial Auditor.

April 22, 1988,
Winnipeg, Manitoba.

# STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1987
(with comparative figures for the year ended December 31, 1986)

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| NET SALES | | |
| Paper | $78,768 | $69,497 |
| Lumber | 13,661 | 8,945 |
| Other | 56 | 612 |
| | 92,485 | 79,054 |
| EXPENSES | | |
| Cost of sales | 74,093 | 66,512 |
| General & administrative | 9,831 | 9,956 |
| | 83,924 | 76,468 |
| OPERATING PROFIT | 8,561 | 2,586 |
| OTHER EXPENSES (INCOME) | | |
| Interest | (1,084) | (133) |
| Insurance proceeds | (800) | — |
| (Gain) Loss on disposal of fixed assets | (718) | 126 |
| Depreciation | 7,828 | 7,871 |
| | 5,226 | 7,864 |
| NET PROFIT (LOSS) FOR THE YEAR | $ 3,335 | $ (5,278) |

# STATEMENT OF OPERATING DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1987
(with comparative figures for the year ended December 31, 1986)

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| BALANCE, BEGINNING OF YEAR | $128,503 | $126,227 |
| Share Redemption | — | (3,002) |
| Net (Profit) Loss for the Year | (3,335) | 5,278 |
| BALANCE, END OF YEAR | $125,168 | $128,503 |

# BALANCE SHEET

AS AT DECEMBER 31, 1987
(with comparative figures at December 31, 1986)

## Assets

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| CURRENT | | |
| Cash and short-term deposits | $ 14,708 | $ 8,211 |
| Accounts receivable – note 3 | 11,094 | 11,477 |
| Inventories – note 4 | 23,176 | 22,066 |
| Prepaid expenses | 702 | 877 |
| | 49,680 | 42,631 |
| FIXED | | |
| Property, plant and equipment – note 5 | 155,859 | 151,172 |
| Rental housing properties | — | 1,497 |
| | 155,859 | 152,669 |
| Less accumulated depreciation | 66,063 | 59,832 |
| | 89,796 | 92,837 |
| | $139,476 | $135,468 |

## Liabilities

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| CURRENT | | |
| Accounts payable and accrued liabilities | $ 9,004 | $ 7,445 |
| Current portion of mortgages payable | — | 21 |
| | 9,004 | 7,466 |
| MORTGAGES PAYABLE | — | 865 |
| | 9,004 | 8,331 |

## Share capital and deficit

| | | |
|---|---|---|
| SHARE CAPITAL – note 6 | 255,640 | 255,640 |
| OPERATING DEFICIT | (125,168) | (128,503) |
| | 130,472 | 127,137 |
| | $139,476 | $135,468 |

Approved on behalf of the Board:

Robert K Nelson
Director

Alan A. Bourgeois
Director

# STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1987
(with comparative figures at December 31, 1986)

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| CASH PROVIDED BY (USED FOR) | | |
| **Operating Activities** | | |
| Net profit (loss) | $ 3,335 | $ (5,278) |
| Items not affecting cash flow: | | |
| Depreciation | 7,828 | 7,871 |
| (Gain) Loss on disposal of fixed assets | (718) | 126 |
| Net change in non-cash working capital balances related to operations | 1,007 | 1,127 |
| | 11,452 | 3,846 |
| **Financing Activities** | | |
| Issue of preferred shares | — | 6,300 |
| Decrease of mortgages payable | (886) | (263) |
| | (886) | 6,037 |
| **Investing Activities** | | |
| Additions to fixed assets | (5,644) | (2,855) |
| Proceeds from disposal of fixed assets | 1,575 | 1,432 |
| | (4,069) | (1,423) |
| INCREASE IN CASH | 6,497 | 8,460 |
| CASH AT BEGINNING OF YEAR | 8,211 | (249) |
| CASH AT END OF YEAR | $14,708 | $ 8,211 |

# NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1987

## 1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company.

a. **Inventories**

Inventories are valued using the following methods:

Logs, Work in Process, and Finished Goods – lower of cost and net realizable value.

Mill stores and other supplies – lower of cost and replacement cost.

Cost is generally determined on an average cost basis.

b. **Fixed Assets**

At the Company's inception, all assets, except those included in the Engineering Division, were valued on the basis of inventoried expenditures to the date of receivership of the originating Companies, January 7, 1971. The Engineering Division fixed assets were valued on the basis of their estimated useful value as of the above date. All of the above assets have been recorded in a general asset pool which is depreciated as a single asset. All subsequent fixed asset additions have been recorded at cost and, with the exception of mobile equipment and assets relating to the Real Estate and Woodlands Divisions, have been added to the fixed asset pool. The Company ceased making additions to the asset pool as at January 1, 1987, except for the completion costs of construction in progress as at that date. Government grants received which relate to capital expenditures are credited to fixed assets.

Asset disposals are accounted for as follows:
- For those assets recorded in the general asset pool, the original or estimated cost of the asset, net of proceeds, is charged to accumulated depreciation.
- For assets not recorded in the general asset pool, gains or losses are credited or charged to operations.

Depreciation is being applied as follows:

Roads & Railspurs
- Timber delivered to the millsite related to estimated total yield of area serviced.

Logging and Mobile Equipment
- Hours used related to estimated total usable hours.

General Asset Pool
- Five percent of the cost of remaining assets.

Other Assets
- Straight-line over three to twenty years.

c. **Foreign Exchange**

Current assets and liabilities of the company expressed in United States dollars are translated into Canadian dollars at the rate of exchange on the balance sheet date. The resulting net gain or loss is reflected in operations.

d. **Pension Costs**

The Company pension plans, covering substantially all employees, are defined benefit pension plans. The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is charged to earnings as services are rendered. This cost reflects management's best estimates of the pension plans' expected investment yield, salary escalations, mortality of members, terminations, and the ages at which members will retire. Adjustments arising from plan amendments, experience gains or losses, changes in assumptions and the pension fund surplus as at January 1, 1987, are amortized over the estimated average remaining service lives of the employee groups.

## 2. CHANGES IN ACCOUNTING POLICY

a. **Pension Costs and Obligations**

Effective January 1, 1987, the Company has adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants concerning accounting for pension costs and obligations. Previously, the amount funded was also the pension expense for the year. The effect of this change in accounting policy is to increase the 1987 income and prepaid expense balances by $245,000.

b. **Fixed Assets**

Prior to January 1, 1987, fixed asset acquisitions, except those relating to mobile equipment and the Woodlands and Real Estate Divisions, were added to the general asset pool. Acquisitions made subsequent to this date, except for the completion costs of construction in progress which will be added to the asset pool, are depreciated on a straight-line basis over their estimated useful lives. This change in policy has had no effect on the 1987 income and accumulated depreciation balances.

## 3. ACCOUNTS RECEIVABLE

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| Trade | $ 9,425 | $10,134 |
| Other | 1,669 | 337 |
| D.R.I.E. Grant | — | 1,006 |
| | $11,094 | $11,477 |

## 4. INVENTORIES

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| Logs | $11,337 | $10,480 |
| Work in process | 2,867 | 2,309 |
| Finished goods | 656 | 1,150 |
| Mill stores and other supplies | 8,316 | 8,127 |
| | $23,176 | $22,066 |

## 5. FIXED ASSETS

| | 1987 | | | 1986 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net | Net |
| | (Thousands of Dollars) | | | |
| General mill assets | $155,133 | $54,442 | $100,691 | $103,294 |
| Development costs | 5,296 | 1,518 | 3,778 | 4,318 |
| Mobile equipment | 6,720 | 4,891 | 1,829 | 1,046 |
| Roads, railspurs and timber rights | 10,072 | 5,020 | 5,052 | 5,026 |
| Other | 1,153 | 192 | 961 | 1,668 |
| | 178,374 | 66,063 | 112,311 | 115,352 |
| Government assistance | 22,515 | | 22,515 | 22,515 |
| | $155,859 | $66,063 | $89,796 | $92,837 |

## 6. SHARE CAPITAL

The Company is wholly-owned by the Province of Manitoba and is incorporated under the authority of The Manitoba Natural Resources Development Act.

Shares Authorized:

Common Shares:
Unlimited number of shares.

Preferred Shares:
Class "A"
Unlimited, non-participating, non-voting, carrying a non-cumulative dividend entitlement of 7%, redeemable at $1 per share.

Class "B"
Unlimited, retractable, non-voting, carrying a cumulative dividend entitlement of 11%, redeemable at $1 per share.

Shares Issued:

| | |
|---|---|
| Common shares at December 31, 1986 and 1987 | $ 20,000,000 |
| Class "A" preferred shares at December 31, 1986 and 1987 | 197,120,809 |
| Class "B" preferred shares at December 31, 1986 and 1987 | 38,519,000 |
| Total shares issued at December 31, 1987 | $255,639,809 |

The arrears of dividends on the Class "B" preferred shares at December 31, 1987, was $13,163,294. (December 31, 1986, $8,926,204)

## 7. PENSION PLANS

The Company has established pension plans for all of its employees. Actuarial valuations were performed as at December 31, 1986. The actuarial present value of accrued pension benefits attributed to services rendered up to the reporting date and the value of pension fund assets are as follows:

| | 1987 | 1986 |
|---|---|---|
| | (Thousands of Dollars) | |
| Accrued pension benefits | $8,507 | $7,249 |
| Pension fund assets | $9,682 | $8,137 |

## 8. COMPARATIVE FIGURES

The 1986 figures have been reclassified, where necessary, to conform to the 1987 financial statement presentation.